

“We’re Catching Hell for It.”

*AARP Chief Executive Officer William Novelli,
regarding AARP’s endorsement of the Republican
Medicare Bill, Pittsburgh Post-Gazette (11/19)*

Compiled by the Office of the Democratic Whip Steny Hoyer

From the New York Times today

To the Editor:

In deciding to support the Republican Medicare legislation, AARP faced a terrible conflict: an urgent need for a drug benefit and long-term survival of universal Medicare (front page, Nov. 18).

Perhaps AARP was unduly influenced by its own longstanding and continuing financial dependence on the insurance industry.

Insurers stand to benefit from the bill's new role for private insurers in the drug benefit and from mandated opportunities to privatize Medicare.

A great public-interest organization has acted in its private interest and sadly misled the public.

ANTHONY ROBBINS, M.D.

San Francisco, Nov. 18, 2003

The writer, a professor of public health at Tufts University School of Medicine, is past president, American Public Health Association.

AARP's Conflict of Interest in the Medicare Drug Bill

Statement of David U. Himmelstein, M.D. & Steffie Woolhandler, M.D., M.P.H.
Harvard Medical School and Physicians for a National Health Program
November 19, 2003

The AARP derives significant income from the sale of health and life insurance policies, and stands to make hundreds of millions more under the Medicare Prescription Drug bill now being debated before Congress. Yet the AARP's financial interests in the bill have received scant attention.

The AARP's current insurance-related revenues come in several streams.

- 1- They receive royalties from "AARP" insurance policies marketed to their members by UnitedHealthcare, MetLife and others. Last year these royalties amounted to \$123.283 million.
- 2- They receive list access fees from insurance firms that market to their membership. In 2002, such fees totaled \$10.794 million.
- 3- AARP receives "Quality Control fees" from insurers that amounted to \$893,000 last year.
- 4- AARP also earns investment income on the premiums received from members until such premiums are forwarded to UnitedHealthcare and MetLife. In 2002, AARP earned \$26.708 million in such investment income.

The table below summarizes the AARP's income for each of these categories over the past 4 years, as well as their total operating revenues, and the proportion of revenues accounted for by insurance-related items. All data are derived from the AARP's Consolidated Financial Statements. Dollar figures are given in millions.

	1999	2000	2001	2002
Insurance Royalties	\$111.3	\$111.8	\$115.5	\$123.3
List Access Fees	\$8.6	\$8.9	\$9.3	\$10.8
Quality Control Fee	\$0.7	\$0.8	\$0.7	\$0.9
Income from Premiums Invested	\$4.7	\$40.3	\$33.1	\$26.7
Insurance-Related Total	\$125.2	\$161.8	\$158.6	\$161.7
Total Operating Revenues	\$412.2	\$502.1	\$520.0	\$635.8

Insurance-Related as % Of Operating Revenues	30.4%	32.2%	30.5%	25.4%
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We believe the AARP's huge insurance business helps explain why it has endorsed a bill that threatens the future of Medicare and the health of America's seniors. Under the proposed Medicare legislation the AARP would almost surely reap hundreds of millions of dollars in additional insurance revenues over the next decade. The Medicare bill would pump \$400 billion in Federal Government money into new Medigap drug policies over the next decade. At present, the AARP's profit from its huge insurance sales amounts to 3.9% of the insurance premiums it collects. If AARP's partners were to capture even 10% of the new Medicare prescription drug coverage market, their premiums would amount \$40 billion, and the AARP's profits would be \$1.56 billion.

The Medicare prescription drug bill offers huge payoffs to the drug industry, private insurers, and some large employers. It would provide paltry benefits to Medicare recipients and take a giant step toward privatizing Medicare. In effect, the AARP leadership has shamefully agreed to sell out its members in exchange for the organization's financial gain.



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POLITICS AND POLICY

AARP Chief Under Fire On the Medicare Bill

**William Novelli Is Blasted
By Disgruntled Democrats
And Seniors Over Endorsement**

By LAURIE MCGINLEY
Staff Reporter of THE WALL STREET JOURNAL

For more health coverage, visit the
Online Journal's **Health Industry
Edition** at wsj.com/health⁴ and
receive daily Health e-mails⁵.

WASHINGTON -- For AARP chief William Novelli, the ride toward a prescription-drug benefit alongside a Republican president is becoming rocky.

Since Monday, when Mr. Novelli announced AARP's enthusiastic endorsement of a Republican-led Medicare bill, he has come under fierce, and increasingly personal, attack by disgruntled Democrats and seniors.

Wednesday, in a protest backed by union groups, a band of AARP members showed up to destroy their membership cards outside the group's downtown headquarters here.

Other seniors have been demanding, on AARP message boards, that Mr. Novelli be fired from his \$420,000-a-year job running the 35-million-member group. AARP says it is getting about 1,500 calls a day on the matter, and Mr. Novelli says most of the calls have been negative. A new survey of AARP members commissioned by the AFL-CIO shows that only 18% want Congress to pass the Medicare package.



William Novelli

Meanwhile, Democrats, calling AARP the "American Association of the Republican Party," are vilifying Mr. Novelli as a longtime closet Republican who forfeited his leverage and cut a lousy deal. Senate Minority Leader Tom Daschle of South Dakota Wednesday charged that AARP "may have a conflict of interest" because it might sell prescription-drug policies to seniors under the legislation.

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The 62-year-old Mr. Novelli says the criticism is harsher than he expected but insists his decision

was "the right thing to do. ... It's like Kermit the Frog said: It's not easy being green. Well, it's not easy being in the middle."

It is all the harder for the fact that it seems so unexpected. Long associated with Democratic policy views, AARP finds itself on the opposite side of the Medicare debate from liberal leaders such as Massachusetts Sen. Edward Kennedy and Sen. Daschle.

The reason is a combination of Mr. Novelli's personality and the political dynamics of this year's Medicare debate. Mr. Novelli, a public-relations and marketing man who took the helm at AARP in 2001 from the cautious Horace Deets, is considered a pragmatist who was determined to get a prescription-drug deal this year -- even if it meant compromising more than others at AARP wanted, friends and foes say.

Republican leaders courted him, knowing AARP's endorsement was essential for overcoming objections from liberal senators and conservative House members.

Mr. Novelli sees the marriage of convenience as a last chance to give seniors a new drug benefit before an exploding budget deficit makes the biggest-ever expansion of the 38-year-old program politically and fiscally impossible.



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Remaking Medicare;² Full coverage of the ongoing Medicare debate, plus commentary and analyses.

- See a chart² of supporters, opponents and swing votes in the pending Medicare legislation.

- **Commentary:** Conservatives Should Vote 'Yes' on Medicare³

To Democratic detractors, the pact he helped negotiate threatens to undermine Medicare, the federal health program for 40 million elderly and disabled people, by introducing limited competition between the traditional program and private insurance plans, which could drive up premiums for people who stay in the regular program.

Democrats aren't the only ones with misgivings. With the legislation likely headed for the floor this week, supporters Wednesday were making last-minute changes

to win over the votes of wavering members.

Wednesday night, Republicans said cost estimates from congressional budget analysts are very close to \$400 billion over 10 years, the amount set in previous budget legislation. That could help calm some conservatives worried about cost, though many believe spending actually will be much higher. House and Senate negotiators are expected to meet Thursday to sign off on the final conference report.

Increasingly, the attacks on Mr. Novelli aren't about what is in the bill. House Minority Leader Nancy Pelosi of California Wednesday criticized Mr. Novelli for writing the foreword to an April 2003 book on health care by Former Speaker Newt Gingrich, who in 1995 tried to slash future Medicare spending. Democrats also have been circulating e-mails noting that Mr. Novelli in 1972 worked on the re-election campaign of President Nixon.

And the consumer group Public Citizen Wednesday distributed a memo from two liberal Harvard Medical School professors, longtime advocates of national health insurance, showing that AARP received more than \$123 million in royalties from insurance companies last year marketing AARP-approved health and life insurance policies, and saying that AARP would reap hundreds of millions from the bill.

Mr. Novelli says he doesn't know whether AARP will sell prescription-drug policies to Medicare beneficiaries but staunchly denies that the group's stance was motivated by financial considerations. Currently, some of the AARP-approved policies on the market offer drug coverage. But AARP spokesman Steve Hahn says these policies, which aren't subsidized by the government, would be rendered obsolete by the legislation, which calls for government-funded drug coverage. In addition, Mr. Novelli says he is an independent, not a Republican, and that it is in AARP's interests to align itself with neither party.

Everyone involved knew AARP would be an important player in the Medicare drug legislation this year. Asked at a September CNBC dinner whether there would be a bill this year, Sen. Kennedy pointed at fellow guest Mr. Novelli and said "you need to talk to him."

When House-Senate negotiators deadlocked on contentious issues, House Speaker Dennis Hastert and Senate Majority Leader Bill Frist began consulting Mr. Novelli to try to win the group's endorsement. Unlike many Democratic lawmakers, Mr. Novelli had already concluded that no bill could pass without some direct competition, called premium support, that Democrats oppose. So he agreed to its inclusion even though it angered Sen. Max Baucus (D., Mont.), who was trying to kill the idea.

Now under heavy fire from liberals, Mr. Novelli says he worked to limit the experiment and doesn't expect it ever to take place in any event. "It's a fig leaf" to assuage conservatives, he says.

Some observers see echoes of how Mr. Novelli handled the tobacco issue when he headed a group called Campaign for Tobacco-Free Kids. The group was the only public-health organization involved in secret talks with the tobacco industry and state attorneys general to try to reach a settlement on government regulation of tobacco and other issues. The resulting settlement, unveiled in the spring of 1997, was attacked by many antitobacco activists as too weak. Critics said Mr. Novelli, founder of the Porter Novelli public-relations agency, was more interested in making a deal than in making good policy.

Mr. Novelli's view is different: that overreaching by much of the public-health community was responsible for the demise of tobacco regulation on the Senate floor. They "were holding out for the perfect," he says, "and as a result, we lost comprehensive tobacco legislation."

He is unlikely to back off on the Medicare deal. In a profile on the Web site of Mr. Novelli's alma mater, the University of Pennsylvania, the AARP chief says he is guided by a Finnish haiku: Problems worthy of attack prove their worth by attacking back.

--Sara Schaefer Muñoz contributed to this article.

Strange Bedfellows

Medicare legislation pending before Congress has scrambled some familiar Washington alliances.

SUPPORTERS	OPPONENTS	SWING VOTES
President Bush	Democratic congressional leaders	Sen. Olympia Snowe (R., Maine)
Republican congressional leaders	The AFL-CIO	Sen. Wayne Allard (R., Colo.)
AARP	The American Nurses Association	Sen. John Ensign (R., Nev.)

washingtonpost.com

AARP Decision Followed a Long GOP Courtship

By David S. Broder and Amy Goldstein
Washington Post Staff Writers
Thursday, November 20, 2003; Page A01

AARP's decision this week to endorse Medicare prescription drug legislation, a step that caught Democrats by surprise, was the product of years of cultivation by the Bush administration and top Republicans on Capitol Hill.

The dialogue that led to AARP's seal of approval for the \$400 billion measure, providing the first prescription drug benefit to seniors while opening the Medicare system to private insurance competition, included intense discussions in recent weeks with House Speaker J. Dennis Hastert (Ill.) and Senate Majority Leader Bill Frist (Tenn.) and a private conversation between President Bush and AARP President James Parkel.

The AARP endorsement "didn't happen overnight," said Thomas A. Scully, administrator of the agency that runs Medicare. "We spent a lot of time working with them over the last three years."

The action by AARP, which represents 35 million members age 50 and older, has substantially increased chances of the bill's final passage in the next week. But it has produced a backlash from members and fierce criticism from Democrats, who have been the group's traditional allies. The repercussions could be felt in next year's campaign, when the support of older voters will be a goal of both parties.

Yesterday, the two top Democrats in Congress, Senate Minority Leader Thomas A. Daschle (S.D.) and House Minority Leader Nancy Pelosi (Calif.), sent a letter to AARP chief executive William Novelli expressing "our profound concern" and demanding an explanation for the decision.

The Democrats predicted that Novelli would regret supporting the bill. They cited a poll taken this week for the AFL-CIO by Democratic pollster Peter D. Hart, which found that only 18 percent of AARP members agreed with the organization's endorsement. The AFL-CIO opposes the bill.

Yesterday afternoon, about two dozen disgruntled AARP members from Maryland, New York and Pennsylvania gathered in the rain outside the organization's downtown Washington headquarters to cut up their membership cards. The protest was organized by two liberal advocacy groups.


Perhaps more significant, the AARP Web site's computer bulletin board was filled with angry messages from members. Novelli acknowledged in a CNBC interview that most of the e-mails he had received were critical -- though other officials played down the dissent as unrepresentative of AARP members.

Lurking in the background were memories of the Reagan-era "catastrophic insurance" law, a measure AARP endorsed, which was quickly repealed when it became clear that many seniors opposed its new charges.

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Democrats say that there are equally serious flaws in this proposal that will become evident to seniors as they learn more about it.

But for now, Republicans, while being careful not to gloat, reveled in the spectacle of the Democratic leaders -- and many of the Democratic presidential candidates -- quarreling with the nation's largest group representing older Americans.

A White House spokesman said Bush had his tête-à-tête with Parkel on Oct. 29 and told him, "We can get this done if you will work with us."

Long before that, Frist and Hastert, who both have years of experience with health care legislation, had begun discussions with Novelli and AARP's policy director, John Rother.

The dialogue opened well before the bill began to take shape, as Hastert picked up on an opening created by his predecessor, Newt Gingrich (R-Ga.), and Frist, a physician, moved to repair what he saw as a lack of outreach to health care groups by his predecessor, Trent Lott (R-Miss.). Hastert "has been talking to them on and off for two years," spokesman John Feehry said. "He'd go to dinner with Novelli on occasion, have phone calls. It was important to keep them in the loop."

Rother said that "as the negotiations intensified" among House Republicans and a bipartisan group of senators over separate Medicare bills the chambers had passed, "our meetings intensified." Last Friday and Saturday, during the final hours, AARP officials had repeated phone calls and e-mail exchanges in which conferees tested whether their ideas would be acceptable to the group.

In general, AARP officials said, the bill is not perfect -- but it provides the best chance in years to begin offering badly needed help to seniors in buying prescription drugs. At the end, the group pressed successfully for larger financial incentives to deter employers from dropping benefits for their retirees, additional assistance for low-income Medicare patients, and a promise that a controversial new system of price competition from private health plans in the program would be experimental, not permanent.

Historically, AARP has usually allied itself with the Democratic Party, which was instrumental in creating Social Security and Medicare, the twin pillars of economic security for the elderly. Conservatives financed alternative seniors organizations, hoping to contest AARP's influence, but without notable success.

In 1995, then-Sen. Alan K. Simpson (R-Wyo.), a critic of AARP, held a hearing to publicize the group's finances, which included \$173 million in commissions on health, life and other insurance, mutual funds and prescription drugs, plus \$86 million in government grants. Simpson said, "I'm not here to destroy the AARP, but I am here to get rid of hypocrisy and duplicity."

But Gingrich said yesterday that a closer relationship began when Republicans took over the House and Senate in 1995 and continued with AARP's hiring of Novelli in 1999.

Novelli had worked as a public relations adviser with both corporate and nonprofit clients, but in the decade before coming to AARP he had managed CARE, the private international relief agency, and the Campaign for Tobacco-Free Kids.

Gingrich describes him as someone "who realizes that Medicare must be reformed at the same time it is protected and expanded. And he has said all along that the bill must be bipartisan to pass."

Democrats suggested yesterday that Gingrich had swayed Novelli's judgment, pointing to a passage in an introduction Novelli wrote for a Gingrich volume on health care published last year. One sentence reads, "Newt's ideas are influencing how we at AARP are thinking about our national role in health promotion and disease prevention and in our advocating for system change."

Gingrich said yesterday that he has had many discussions with Novelli about the current Medicare bill, but he said: "I have not been an intermediary. He is comfortable enough with Frist and Hastert that he did not need me."

Staff writer Robert E. Pierre contributed to this report.

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Members give AARP earful for backing GOP plan

Wednesday, November 19, 2003

By Gary Rotstein, Pittsburgh Post-Gazette

AARP members began filing scornful e-mail on the advocacy group's [national Web site](#) almost immediately after its leadership embraced a Republican-backed Medicare plan this week.

From one anonymous note among many, posted at 7:59 a.m. yesterday: "I am really upset that our policy makers in AARP have accepted in our name a prescription drug program that will help destroy Medicare as we know it."

And this at 8:35 a.m.: "This is the biggest sellout of any organization that purports to represent seniors."

At 10:56 a.m.: "I just canceled my membership a little while ago. I'm sure thousands more will be doing the same."

And on and on it went, phone and computer messages by the hundreds Monday night and yesterday, apparently from the ranks of the organization's 35 million members. Nearly all condemned the Washington headquarters and AARP Chief Executive Officer Bill Novelli for endorsing the \$400 billion Medicare plan.

"We're catching hell for it," acknowledged Novelli, a Bridgeville native with a marketing background who vowed to increase AARP's aggressiveness when he took its helm two years ago.

He said late yesterday that the headquarters of the nation's biggest group representing older adults was receiving 200 phone calls an hour, and 50 members had canceled their memberships. He termed the number "50 too many," but not overwhelming.

"These are people upset for one of two reasons -- they don't think the drug benefit is good enough, or they've been led to believe this thing is going to threaten Medicare as they know it," Novelli said. "The latter is not true, but the former, they're right that it's definitely not perfect."

Aware of the criticism, AARP begins a \$7 million television-newspaper advertising campaign today to support passage of the Medicare overhaul, emphasizing that it's the best possible compromise available now to help older Americans.

"We're going to have to do a lot of work to educate people about this thing," Novelli said. "What we're telling them is the proposed prescription drug Medicare bill isn't perfect, but millions of Americans can't afford to wait for perfect."

He will have a hard time selling even some of AARP's most active volunteers and supporters on that notion.

"They don't have the grass-roots support," said Theo McCracken of New Castle, a critic of the plan who is volunteer coordinator of federal issues statewide for AARP. "They should listen to

the members, especially the volunteers, who would let them know how they feel about this thing."

Some congressional Democrats and other senior advocacy groups that are frequent allies of AARP also have expressed disappointment with the powerful organization, though its position was no shock after months of discussions. Those peer groups are unswayed by AARP's statements that it has to be moderate and bipartisan in the GOP-dominated Washington environment to accomplish any key goals -- particularly obtaining a long-sought prescription drug benefit for seniors.

"AARP has been working closely with the White House and Republican leadership on this bill, and it was clear what they wanted to do," said Edward Coyle, executive director of the smaller but politically feisty Alliance for Retired Americans. "But our members who are also AARP members are very upset with AARP for the position they've taken."

The members' comments posted on the AARP message board covered a wide range, both emotionally and factually.

Many didn't like the size of \$35 monthly premiums and \$275 deductibles for the drug benefit, and a gap in coverage that arises after \$2,200 in drug costs. Others viewed facets of the program as benefiting private health insurers and pharmaceutical companies at the expense of consumers. An experimental program slated to offer private competition to Medicare in some markets in 2010 sparked fears of future benefit or service cuts.

Ray Landis, acting director of AARP's Pennsylvania chapter, said many people become more accepting of the changes once details are explained to them, but it's hard to satisfy everyone.

"When you have as big an organization as AARP is, there's people all over the place" philosophically, Landis said. "Especially among people that are active volunteers with us ... there's some obvious disappointment."

One of them is Jack Heim, 83, of Avalon, an activist for 20 years, most recently as the organization's Western Pennsylvania coordinator on federal issues. He's not going to cut up his membership card, and he tells other people to give the new program a chance, but he's disenchanted with his organization for getting so strongly behind a plan containing so many question marks.

"If Congress wants to pass it, leave them pass it, but AARP should say we're not in favor or just keep quiet," Heim said. "[Grass-roots members] don't feel AARP should spend millions of dollars backing this program."

He, McCracken and others say they're going to let their congressmen know that their positions differ with their national leadership on the issue. The gap between the positions of many AARP members and their leaders sparks reminders of the organization's worst public relations debacle, in 1988, when it had to backtrack on supporting legislation that increased premium costs for some elderly beneficiaries.

Novelli doesn't see the organization at that point.

"I expect there to be criticism," he said. "What we have to do is explain our position."

<http://www.post-gazette.com/pg/03323/241411.stm>

AARP PRIORITIES AND THE MEDICARE CONFERENCE REPORT

"If, however, the final conference agreement does more harm than good, based on the concerns enumerated in this letter, we will not hesitate to oppose it."

-- Letter to Congress from AARP CEO William Novelli, July 13, 2003

AARP JULY 2003 CONCERNS		Conference Bill
PREMIUM SUPPORT	"AARP opposes a premium support structure ... that could...require beneficiaries to pay even more out-of-pocket."	INCLUDES premium support demo that coerces seniors into HMOs and raises premiums for traditional Medicare
GUARANTEED PRESCRIPTION DRUG BENEFIT	"AARP believes that there must be a guaranteed drug plan available for all Medicare beneficiaries – regardless of where they live. The Senate provision is the minimum necessary..."	WEAKENS Senate fallback provision, which guarantees a Medicare option for seniors
MEANS TESTING	"Altering the level of the benefit based on beneficiary income would erode the universal nature of the program."	INCLUDES income-related premium for Part B
LOW-INCOME	"We believe that eligibility for this assistance should not be limited by an assets test that could prevent otherwise low-income beneficiaries from the benefit of reduced cost sharing."	INCLUDES assets testing for low-income assistance
COVERAGE GAP	"AARP believes...the [coverage] gap should be narrowed further and, ultimately, must be eliminated."	WIDENS benefit gap when compared to the Senate bill
MAINTAINING CURRENT COVERAGE	"AARP strongly believes that a conference agreement should not result in millions of older and disabled Americans losing their employer-provided prescription drug coverage."	STILL CAUSES MILLIONS to lose retiree coverage
INDEXING	"We urge you to index the prescription drug benefit and other cost-sharing measures to a measure that is more closely related to the growth in beneficiaries' ability to pay to ensure that the coverage will remain affordable..."	DOES NOTHING to address concerns about cost growth over time
COST CONTAINMENT	"In order to assure the continued affordability of the benefit for both beneficiaries and the Medicare program, greater efforts are needed to put downward pressure on health care costs, particularly the price of prescription drugs."	WEAKENS prescription drug cost containment, eviscerates reimportation
PROVIDER GIVEBACKS	"[R]eimbursement changes should [not] diminish...funding for a drug benefit or add to total beneficiary cost-sharing obligations."	OVERPAYS HMOs & PPOs at the expense of worse drug coverage and increased premiums & cost sharing

" What do you think the health care financing administration is? It's a centralized command bureaucracy. It's everything we're telling Boris Yeltsin to get rid of. Now we don't get rid of it in round one because we think that's politically smart and we don't think that's the right way to go through a transition. But we believe it's going to wither on the vine."

House Speaker Newt Gingrich
Speech to Blue Cross
October 24, 1995

"Newt's ideas are influencing how we at AARP are thinking about our national role in health promotion and disease prevention and in our advocating for system change."

William Novelli
Executive Director & CEO
American Association of Retired Persons
Forward to Newt Gingrich Book:
Saving Lives and Saving Dollars

CNBC CAPITAL REPORT WITH ALAN MURRAY

Transcript

November 18, 2003

GUEST: William Novelli of AARP

(FYI: See Novelli's comments in bold on pgs. 2 & 3)

ALAN MURRAY, co-host:

Welcome back. We'll continue tonight's focus on the battle over prescription drugs, which is blowing some longtime Washington allegiances out of the water.

Joining us now for an exclusive interview is William Novelli. He's the chief executive of the American Association of Retired Persons.

Mr. Novelli, thanks for being with us. For decades the AARP has been aligned with Democratic leaders. Now you have signed on to this bill that's being criticized by Tom Daschle, Ted Kennedy, Hillary Clinton. We have a quote here that Nancy Pelosi, the Democratic leader in the House, had to say today. She said she is "deeply disappointed that AARP's national leadership has been co-opted by Republicans." What's going on here?

Mr. WILLIAM NOVELLI (CEO, AARP): That's not true. Well, the situation is that AARP is non-partisan. We don't line up with any party. We line up with seniors. And we took a very close, analytical look at this bill, and we decided it was the right thing for the country. It is not perfect; there's no question about it. But it's a very good start, and so we strongly endorse it, and we're going to work very hard to get it passed.

MURRAY: Why are they taking a different tack on this?

Mr. NOVELLI: The Democrats, you mean?

MURRAY: Yeah.

Mr. NOVELLI: Well, I think that they're unhappy about the prospects. They really weren't included fully in the deliberations, and I think some of them may be worried about the policy, and maybe there's some politics involved as well. But I can't be worried about that. AARP is really worried about making sure that we get drug coverage for seniors and that we get ready for the retirement of the boomers, and I think this bill will help us do that.

GLORIA BORGER, co-host:

You know, when you talk to Democrats today, they're very critical of the AARP, which traditionally, as we've been saying on the show, that you're very much

aligned with Democrats. And they say that it is because the AARP has now become a big business, that the AARP is in cahoots with the drug companies because the drug companies advertise in your magazine, that you're in cahoots with the insurance industry because you have gone into the business of selling these medigap policies and that is why you have come in cahoots with the Republicans. How do you respond to that?

Mr. NOVELLI: Well, we've managed to make everybody angry. The drug companies are not our allies. Last year we sued three of them over the fact that they were delaying generics getting to market. Our policy is to support seniors. We're not in any cahoots with anybody and we're not cozying up to anybody. Our job is to make sure that the best possible drug coverage gets out there as soon as possible. People desperately need this.

MURRAY: The AARP sponsored a debate among the Democratic candidates in New Hampshire today. Your members were there in the audience. Every one of the Democrats criticized this Medicare bill and criticized the AARP's decision. Let's listen to some of them.

Unidentified Democrat #1: This is a bad bill. It's a Republican bill, therefore it's a bad bill. Worst of all, it was written by the pharmaceutical companies and the HMOs. (Unintelligible) This bill is a Trojan horse. It gives benefits now. It admitted competition against Medicare and is trying to undercut Medicare, and leave Medicare as the last and least effective insurance option for seniors, but help the people who don't need the help and it cuts you off when you do need the help. It is a giveaway to the drug companies and it does very little for the seniors of this country.

MURRAY: Now they're talking to your members there. Are you hearing from your members on this?

Mr. NOVELLI: Yeah. We are. We're hearing from our members. We're getting a lot of phone calls. The majority of the phone calls so far have been critical. Of course, we haven't really gotten out there and explained ourselves. We have an advertising campaign starting tomorrow. I think those criticisms are misguided. The truth of the matter is that this bill is going to help people who need help the most, the low-income people and the people with high drug costs. It's got terrific incentives in it to keep employers from dropping retiree coverage. And one of the things that hasn't been talked about very much is it has some really good aspects of it in terms of managing chronic disease, in terms of preventive care and really helping people who need help and really improving the quality of life of our seniors.

BORGER: One of your members wrote to Alan today, and I'm going to take--Alan shared this e-mail with me, so I'm going to take the liberty of reading it to you, and it says, 'I'm a 67-year-old senior and now a former member of AARP.

This bill is the work of ...(unintelligible). They can stick their drug discount card where the sun don't shine. If we can afford these obscene tax cuts, we can afford medicine.' What do you say about that? He goes on to say, 'I hate the Judases and Novelli is, I suspect, a Madison Avenue wolf planted to undermine the AARP ...(unintelligible).'

Mr. NOVELLI: Well, I have been getting a lot of e-mail myself, and I've been getting a lot of criticism. I really feel unfazed by it. I think we're doing the right thing. The board, the management of AARP--we have looked this over very, very thoroughly. AARP would never do anything to harm Medicare. That's the gold standard, and we believe that this is a good first step to improve it.

BORGER: What do you say to people who say this is going to backfire against you. Remember catastrophic health insurance had backfired against Democrats who supported it? People say this isn't going to be enough, there is a hole in the middle of the benefit.

Mr. NOVELLI: Yeah. Yeah. Well, you know, it's being attacked from the right, saying that it costs too much. It's being attacked from the left, saying that it doesn't cost enough and that it's going to unravel traditional Medicare. It's difficult to be in the middle, and this is one of these center out times of coalition. We're hoping that it'll come through, that we'll get it going and that we'll be able to build on it. I think it's the right thing to do.

MURRAY: Well, Bill Novelli, thanks for being with us. It's a very courageous move you've made. We're going to play one of your advertisements later on in the program so people can see what you'll be doing. Seven million dollars--is that...

Mr. NOVELLI: Well, we're going to spend \$7 million over three days, and if the vote goes into next week we'll spend some more. We need to get out and talk to our people.

BORGER: Very quickly, would you advertise against Democrats who don't vote for this bill?

Mr. NOVELLI: No, we don't attack senators. We're non-partisan.

BORGER: Thanks so much.

MURRAY: Thank you very much for being with us on CAPITAL REPORT.